



STATE OF MINNESOTA

Office of Governor Mark Dayton

130 State Capitol ♦ 75 Rev. Dr. Martin Luther King Jr. Boulevard ♦ Saint Paul, MN 55155

September 30, 2017

An Open Letter to People on the Iron Range:

Today is the State of Minnesota's Decision Day, regarding the future of Chippewa Capital Partners project at the former Essar site. Chippewa plans to construct a taconite pellet plant to produce 7 million tons annually, and a Direct Reduced Iron/Hot Briquetted Iron facility to produce 2.0 million tons annually.

Minnesota Department of Natural Resources' and my staff have been very closely monitoring Chippewa's progress during the past three months. To satisfy its obligations under the bankruptcy proceedings, Chippewa has done the following:

1. Transferred \$39.5 million to an account to be paid to primarily Range contractors next week, if the project is approved to continue. They have committed to paying vendors the balance due them, when the company exits the bankruptcy proceedings, a significant acceleration over what is required under the court approved bankruptcy plan.
2. Chippewa has secured a firm, binding commitment for \$250 million, and a letter of intent for an additional \$250 million equity investment in the project.
3. Chippewa has already invested \$25 million of its own capital in the project.
4. Chippewa has provided a \$4 million Letter of Credit to the DNR and a \$1 million Letter of Credit to the private leaseholders, if they should default of the terms of the agreement.
5. Chippewa has secured the strong intentions of two major US lenders to provide the remaining financing needed to complete the building of the former Essar site and begin production. I have heard from both lenders, and I am satisfied that their intended involvement is secure.
6. Chippewa has obtained a Letter of Intent with a Chinese company for a ten-year offtake agreement to purchase a minimum of 4.2 million tons of pellets annually. With this offtake agreement, Chippewa's products would not compete with other Range taconite operations for the existing US markets.

7. Chippewa is working with Kiewit Energy Group Inc. towards concluding a General Contracting Agreement for project completion. Kiewit spent 90 days and thousands of hours to develop the \$549 "cost to complete" projections. Kiewit is committed to utilizing local Minnesota tradespeople in completing the project on a projected 31-month timeline after mobilization. Kiewit is rated A+ by Standard & Poor's Financial Services LLC and consistently ranked amongst the top contractors in the world. Kiewit is operating under a "Limited Notice to Proceed Agreement," positioning the project for continuous construction activity.
8. Chippewa has engaged Tenova S.p.A. to design a Direct Reduced Iron/Hot Briquetted Iron facility at the Nashwauk location. Tenova is a world leader in the construction of DRI/HBI plants. Tenova has made meaningful progress on the design and integration between the DRI/HBI plant and the 7.0 mmpa Metso pellet plant. The design allows the Metso pellet plant to deliver hot DR Grade pellets directly into the DRI/HBI plant.

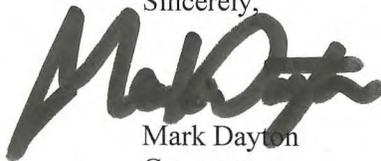
On the other hand, failure to continue with Chippewa has very negative consequences for the Range. Cleveland Cliffs has expressed its interest in acquiring the site's minerals leases; and Cliffs has proven itself to be a very strong, and greatly valued, leader of the revitalized Range mining operations. I do not want anything to damage that extremely important working relationship.

However, the State of Minnesota is not free to do whatever it wants with this project. No thanks to Essar, it is controlled by the Bankruptcy Court. Chippewa made the winning bid to acquire the project in the Court's proceedings, and they were awarded the rights to it by the Court.

If the Chippewa project did not continue, everything would revert back to the Bankruptcy Court. As the attached comparison chart shows, re-establishing the project anew under someone else's ownership would be a lengthy process, during which time contractors would not be paid, the site would not be rebuilt, and there would be few new jobs on the Range.

After very careful review of Chippewa's progress to date, I believe that they have substantially satisfied its obligations to the Bankruptcy Court and the State of Minnesota. Their progress has been very significant; their securing the necessary financial commitments has been most impressive; their negotiations for an offtake agreement with a Chinese company could open an entire new market for Range production; and their firm commitment to repay contractors \$39.5 million next week, altogether are sufficient for me to direct DNR to file with the Bankruptcy Court today the State's support for the project's continuation.

Sincerely,



Mark Dayton
Governor

Attachments

Issue	Chippewa Keeps State Leases	State Takes Back Leases
Payments to Contractors	\$39.5M paid by October 6. Balance paid upon exiting bankruptcy. This represents an acceleration over what's required by up to four years.	No guarantee of any payments to contractors.
Jobs	Average of 700 workers onsite for construction of pellet plant. Additional 300 average workers onsite for construction of value added. Total permanent employment of 450 (pellet and value added combined).	Best-case scenario, significant delay in jobs, with value added jobs substantially in question. Increased likelihood relative to Chippewa keeping leases that no jobs materialize.
Positive Indicators	<p>Chippewa is clearly serious and has made substantial progress:</p> <ul style="list-style-type: none"> • \$250M in equity committed. Signed Letter of Intent from another entity for an additional \$250M equity investment. • Debt financing negotiations with reputable lenders are well-advanced, with strong expressions of interest in providing at least \$600M. Key remaining contingencies include turnkey contract with general contractor and offtake agreement finalized • Signed Letter of Intent with Chinese company to purchase at least 4.2 million tons per year of acid pellets. Buyer does not compete in Great Lakes pellet market. • Very reputable general contractor has completed in-depth analysis of cost to complete pellet facility—first time project has had this • Initial engineering and bid for development on value added facility by an experienced designer of value added facilities. 	Back to square one; substantial time and progress lost; no guarantee a viable value added facility emerges

<p>Transition to Electric Arc Furnace Market</p>	<p>Chippewa’s value added facility would be a game changer for Minnesota, somewhat akin to the development of taconite processing in the late 1940s. By producing a product for electric arc furnaces, Chippewa will not be competing with existing taconite facilities in the Great Lakes pellet market.</p>	<p>High probability that this ore body, which is uniquely well suited to value added, is instead ultimately used for only pellet production, with the actual pellet production possibly in a different location.</p>
<p>Time to Active Mining</p>	<p>Must be shipping pellets by December 2020. So mining will start by late 2019 or in 2020.</p>	<p>Likely not before 2025. While state gets its leases back, the project likely proceeds to liquidation. That process is estimated at 3-4 years. During this time, getting a competitive bid for state minerals would be very difficult. So likely a minimum of 5 years out before any construction would resume. Mining would follow that by a minimum of 2 additional years. If project has to go through environmental review and permitting (distinct possibility), the timeframes would be much longer.</p>
<p>Value Added Iron Ore</p>	<p>Must complete construction of value added facility by December 2021.</p>	<p>DNR has no indication that any other potential bidder is prepared to commit to constructing a value added facility. The only other bidder in bankruptcy explicitly declined to commit to value added in its bid to assume the assets.</p>
<p>Minimum Annual Royalties</p>	<p>To ensure construction of value added facility, must pay minimum annual royalty to state of \$6M in 2019, \$9M in 2020, and \$11.8M in 2021 and annually thereafter until minimum volume of value added iron ore is shipped.</p>	<p>If DNR has to reoffer the leases, we would have no leverage to require minimum annual royalty payments prior to production. Such payments are unprecedented.</p>
<p>Other Royalty Considerations</p>	<p>Royalties to state during mining are projected to range from \$15-\$29M/year, depending on market conditions and volume of state ore mined in each year. Beneficiaries: majority to University Trust, with School Trust and local communities also receiving royalties</p>	<p>DNR believes it is unlikely to be able to negotiate equivalent royalty provisions with a new lessee. The reduction could be quite substantial.</p>

Price Protections	High floor for royalties if global ore price is soft—43% higher floor than with most/all current taconite leases	DNR’s likelihood of negotiating similar terms with another lessee very low
Construction Deadlines	Pellet plant must be complete by December 2019. Value added must be complete by December 2021.	If the project goes to liquidation now, equipment and other facility assets could be sold off separately, substantially increasing construction time following resolution of the liquidation. Any construction deadlines in state leases would be subject to negotiation. State would have far less leverage.
Construction Incentives	Doubling of rents, royalties, and minimum payments for failure to meet construction deadlines for pellet plant and value added facility.	State would have far less leverage with a new lessee.
Efficiency	State-of-the-art facility and proximity to the ore body will make this a very low cost of production facility.	If new lessee completes construction of the facility, similar benefits. If they ship ore offsite for final processing, these benefits may be lost.

CHIPPEWA CAPITAL PARTNERS, LLC

15 Appledore Lane · Natural Bridge, VA 24578

September 29, 2017

The Honorable Mark Dayton
Governor of Minnesota
130 State Capitol
75 Rev Dr. Martin Luther King Jr. Blvd.
St. Paul, MN 55155

Dear Governor Dayton:

Chippewa Capital Partners, LLC (“Chippewa”) and I want to thank-you for the time and commitment you, the Office of the Attorney General, and the Department of Natural Resources (“DNR”) have shared with us on the Nashwauk, Minnesota iron ore project. We understand the long and difficult process the people of Minnesota have endured before our participation, and we look forward to working together to bring this important project to a successful conclusion.

A project of this size and scope requires deep experience/financial capacity, and we are pleased to have assembled the following “*Team Members*” who will bring us from construction to operational commissioning and the global sale of an estimated \$800 million annually of Minnesota iron ore products. Our team includes the following participants:

1. Kiewit Energy Group Inc. (“Kiewit”) has been engaged to finish the construction of the project. Kiewit spent ~90 days and thousands of hours to develop the \$549 million “*cost to complete*” projections. Kiewit is committed to utilizing local Minnesota tradespeople in competing the project on a projected 31-month timeline after mobilization. Kiewit is rated A+ by Standard & Poor’s Financial Services LLC and consistently ranked amongst the top contractors in the world. Kiewit is operating under a “*Limited Notice to Proceed Agreement*,” positioning the project for continuous construction activity. We are working with Kiewit towards concluding a General Contracting Agreement for project completion.
2. TENOVA S.p.A. (“Tenova”) is a world leader in the construction of “*Direct Reduced Iron/Hot Briquetted Iron*” plants. Chippewa has engaged Tenova to design a DRI/HBI facility at the Nashwauk, Minnesota location. Tenova has made meaningful progress on the design and integration between the DRI/HBI plant and the 7.0 mmtpa Metso pellet plant. The design allows the Metso pellet plant to deliver hot DR Grade pellets directly into the DRI/HBI plant.
3. Nubai Global Investment Limited, a 100 percent owned subsidiary of DSA Investments Inc., and an affiliate of DSA Group DMCC (collectively “*DSA*”) has provided a firm and binding commitment for \$250 million of equity capital and through Chippewa have provided Mesabi with \$25.5 million of funding to date. DSA principals John Oram and Manoj Madnani have extensive experience in resource projects of this type having successfully managed the iron ore/oil & gas investments of multi-billionaire Jan Kulczyk and others for many years. The DSA investment meets the requirements for plan consummation, and DSA/Chippewa continue to work with potential co-equity investors to further reduce the debt financing of the project, so as to ensure its viability in the event of unexpected events such as a market downturn.

4. Chippewa has been working closely with a Fortune Global 500 company to provide an offtake for up to 4.0 mmtpa of acid iron ore pellets, which will be marketed outside of the Great Lakes region, primarily for global export. This partner is not only committed to purchasing Minnesota produced pellets but would also like to invest in both the pellet plant and the DRI/HBI plant. This additional investment would allow Chippewa to reduce its debt financing to the benefit of all parties as described above. After multiple international meetings and extensive on-site due-diligence, Chippewa is finalizing the pellet purchase and investment agreements with this partner.
5. Chippewa has been working closely with large sophisticated financial partners in providing the debt financing for project completion. Chippewa has provided confidential business information to DNR and made presentations demonstrating the advanced stage of our debt financing.

In fulfilling the terms of the Settlement Agreement with the State of Minnesota, Chippewa obtained an order from Judge Shannon on June 28, 2017, confirming the Mesabi Metallics Company LLC (“Mesabi”) Plan of Reorganization. Prior to obtaining the confirmation order, on June 26, 2017, Chippewa provided a \$4,000,000 irrevocable letter of credit in favor of DNR, as required under the Settlement Agreement. Chippewa has provided a \$1,000,000 performance bond to the private owners of mineral rights and worked to resolve any outstanding issues, with these owners. On July 10, 2017, Chippewa paid a \$621,812.38 royalty fee to DNR as required under the Settlement Agreement. Chippewa has in place an enforceable equity commitment for \$250 million as required by the Mesabi plan of reorganization. As we approach the September 30th extended deadline of our Settlement Agreement, I would like to propose the following;

- A. DSA transfer an additional \$39.5 million to Chippewa’s U.S. bank account for the payment of Mechanic Lienholders, as provided for under the Mesabi plan of reorganization. Chippewa will immediately work with Mesabi to make payment to Mechanic Lienholders with finalized claims on or before October 6, 2017.
- B. As further evidence of Chippewa’s intent to move the project forward expeditiously, Chippewa will increase monthly project construction and engineering funding to \$2.5 million per month, until the full construction program is implemented. Chippewa will work with its investors to provide additional funds promptly to consummate the Plan of Reorganization and establish the “*Effective Date*” in accordance with the confirmation order.

We are proud to be a part of a project which has so much potential for the State of Minnesota and the people of the Iron Range. The project has the following tangible benefits, many of which will have an immediate impact:

- A. Kiewit has estimated the average number of trades and supervisory personnel on site during the 31-month construction/commissioning period will be ~700 for the completion of the 7.0 mmtpa Metso pellet plant. An additional ~300 people will be involved in the construction of the Tenova DRI/HBI plant, which is planned for concurrent construction with the Metso pellet plant.
- B. With over \$1.9 billion spent to date by Mesabi (*as documented in the bankruptcy filings*), the total completed project, including the value-added DRI/HBI plant, will exceed \$3.5 billion. This is potentially one

of the largest construction projects in the history of Minnesota and this investment will have long-term benefits for the communities and people of the Iron Range. The Mesabi plan of reorganization provides contractors with \$59.3 million of Mechanic Lienholder payments, of which Chippewa will pay \$39.5 million in advance of the plan of reorganization Effective Date.

- C. Total permanent employment for the mine, pellet plant, and the DRI/HBI plant is expected to average 450 people as we achieve full operating capacity. Estimated annual production tax revenue at full operating capacity totals ~\$17 million, which benefits education and the communities of the Iron Range.
- D. Chippewa's intention is for Mesabi to produce acid pellets (@65% Fe) for sale in the seaborne markets of Europe and Asia. Chippewa's sales will therefore not be in competition with Minnesota's existing iron ore mines, which provide pellets to the integrated-steel mills of the Great Lakes region. Chippewa employment and production tax revenues will have a positive incremental impact on Minnesota and its citizens.

We greatly appreciate the support we have received from the State of Minnesota and the Iron Range as we work together to realize the benefits the Nashwauk project brings to all stakeholders. I personally look forward to working with you and the people of Minnesota in bringing this project to completion!

Respectfully,

A handwritten signature in black ink, appearing to read 'Thomas M. Clarke', with a decorative flourish extending to the right.

Thomas M. Clarke